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October 9, 2009

**REVISED
10/13/09**

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **LOS ANGELES GAY AND LESBIAN COMMUNITY SERVICES CENTER
CONTRACTS REVIEW – A DEPARTMENT OF PUBLIC HEALTH
HIV/AIDS CARE AND PREVENTION SERVICES PROVIDER**

We completed a fiscal review of the Los Angeles Gay and Lesbian Community Services Center (LAGLC or Agency), a Department of Public Health (DPH) HIV/AIDS care and prevention services provider.

Background

The DPH's Office of AIDS Programs and Policy (OAPP) contracts with LAGLC to provide HIV/AIDS medical outpatient, resistance testing, medical specialty, psychiatric, mental health and risk reduction outreach services. The LAGLC is located in the Third District.

At the time of our review, LAGLC had four cost reimbursement contracts with OAPP and was paid approximately \$4 million in OAPP funds from March 1, 2006 to February 28, 2007.

Purpose/Methodology

The purpose of our review was to determine that LAGLC appropriately spent funds in accordance with the County contract. We also evaluated the adequacy of LAGLC's accounting records, internal controls and compliance with the contract and applicable federal and State fiscal guidelines governing the Ryan White Comprehensive AIDS

Resource Emergency Act. In addition, we determined whether the Agency provided services to eligible participants.

Results of Review

The Agency appropriately recorded and deposited cash receipts timely into the Agency's bank account. However, the Agency billed OAPP for undocumented and unallowable program expenditures totaling \$97,944. For example, LAGLC:

- Did not maintain appropriate documentation to support \$6,179 in expenditures.
- Overcharged OAPP \$82,431 (\$81,470 + \$961) for unsupported shared and payroll expenditures.
- Billed OAPP \$9,334 for services to non-OAPP clients.

In addition, the Agency's client in-take procedures did not adequately document the screening for Medi-Cal, private medical insurance and other public sector funding or whether clients met the income requirements for services received, as required by the County contract.

The details of our review along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with LAGLC and OAPP. In their attached response, the Agency indicates agreement with the findings and recommendations including the questioned costs. However, the Agency is asking DPH forgiveness for the overbillings due to the current economic environment. DPH indicated that they will work with the Agency to obtain repayment for the unsupported and unallowable expenditures.

We thank LAGLC management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, Director, Department of Public Health
Los Angeles Gay and Lesbian Center
Lorri L. Jean, Esq. Chief Executive Officer
Michael J. Holtzman, Chief Financial Officer
Public Information Office
Audit Committee

**HIV/AIDS CARE AND PREVENTION SERVICES
LOS ANGELES GAY AND LESBIAN COMMUNITY SERVICES CENTER
FISCAL YEAR 2006-07**

ELIGIBILITY

Objective

Determine whether the Los Angeles Gay and Lesbian Community Services Center (LAGLC or Agency) provided services to individuals that meet the eligibility requirements of the Office of AIDS Programs and Policy (OAPP).

Verification

We reviewed the case files for 15 program participants that received services during January and February 2007 for documentation to confirm their eligibility for OAPP services.

Results

The case files for two program participants did not contain documentation indicating that any services were provided by the Agency and one case file did not contain residency verification as required by the contract.

In addition, the Agency's client in-take procedures did not include adequate procedures for screening of clients/participants' income verification or other third party payers prior to billing the services to OAPP. The contract requires OAPP funds to be used only for services that cannot be paid for by other sources. Providers must document in the clients' files that program participants have been screened for Medi-Cal, private medical insurance and other public sector funding. Clients are eligible for services after a financial screening has been completed validating that OAPP funds are the payer of last resort.

Recommendations

LAGLC management ensure:

- 1. Staff obtain the appropriate documentation from participants to determine the participants' eligibility for program services.**
- 2. Staff adequately document services provided to participants in the case files.**
- 3. Client files document that participants are screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate.**

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed LAGLC's personnel and reviewed their financial records. We also reviewed the Agency's December 2006 bank reconciliation.

Results

LAGLC appropriately recorded and deposited cash receipts timely. In addition, the Agency reconciled its bank account monthly.

Recommendation

None.

EXPENDITURES**Objective**

Determine whether program expenditures are allowable under the County contract, properly documented and accurately billed to the program.

Verification

We interviewed Agency personnel, reviewed accounting records and reviewed documentation for 26 non-payroll expenditure transactions charged to OAPP during Fiscal Year 2006-07, totaling \$244,775.

Results

LAGLC did not always maintain appropriate documentation to support program expenditures and charged OAPP for unrelated program costs. Specifically, LAGLC billed OAPP:

- \$6,179 for unsupported program incentives, advertising and events.
- \$9,334 for medical and psychiatry services provided to non-OAPP clients.

Recommendations

LAGLC management:

- 4. Repay DPH \$15,513 (\$6,179 + \$9,334) or provide documentation to support the expenditures.**
- 5. Maintain supporting documentation to support program expenditures.**
- 6. Ensure that only allowable expenditures are charged to the OAPP program.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether the Agency's fixed assets and equipment purchases made with OAPP funds are used for the OAPP program and are safeguarded.

We did not perform testwork in this area as the Agency did not charge OAPP any costs for the purchase of any fixed assets.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the program. In addition, determine whether personnel files are maintained as required.

Verification

We traced payroll expenditures for 16 (18%) of the 88 employees totaling \$120,858 in January 2007 and employee benefits totaling \$129,964 from March 2006 to February 2007. We also reviewed the personnel files for 16 employees assigned to the OAPP program.

Results

The Agency's payroll billings were not in compliance with the County contract requirements. Specifically:

- LAGLC charged OAPP \$961 for salaries and employee benefits in excess of their actual costs.
- For two employees, the vacation and sick leave used was not recorded on the Agency's variance log.

Recommendations**LAGLC management:**

7. Repay DPH \$961 or provide documentation to support the expenditures.
8. Ensure payroll billings are based on actual costs incurred and actual hours worked on OAPP related activities.
9. Ensure variance time used is appropriately recorded and reduced from employees' benefit balances.

COST ALLOCATION PLAN**Objective**

Determine whether the Agency's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed LAGLC's Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency from January 2006 to February 2007 to ensure that the expenditures were properly allocated to the benefiting programs.

Results

The Cost Allocation Plan developed by LAGLC is appropriate. However, LAGLC's allocated shared costs were not always properly distributed to the benefiting programs. As a result, OAPP was overcharged for facility space and security (\$59,969), printing (\$10,326), telephone (\$6,180), postage (\$4,078) and copier costs (\$917).

Recommendation

10. LAGLC management repay DPH \$81,470 in over billings.

COST REPORTS**Objective**

Determine whether the Agency's Cost Reports reconcile to the Agency's financial accounting records.

Verification

We traced the Agency's general ledger to the Agency's Cost Reports submitted to OAPP for the four OAPP contracts reviewed.

Results

LAGLC's accounting records did not always support the amounts reported on the Agency's Cost Reports. A reconciliation of the general ledger and the Cost Reports resulted in unsupported charges of approximately \$226,824. The unsupported costs were mainly shared costs for general program support, facility space and administrative costs that were not recorded in the general ledger until the end of the Agency's fiscal year and were based on budgeted amounts. Subsequent to our exit conference, the Agency recalculated the shared costs and provided us with supporting documentation for the adjusted allocations to the County contracts. As indicated above, the Agency over charged OAPP for various shared expenditures.

Recommendations

Refer to recommendation 10.

LAGLC management:

- 11. Ensure the expenditures charged to OAPP are recorded in the Agency's accounting records.**
- 12. Ensure the Cost Reports are supported by the Agency's financial records.**

**HIV/AIDS PREVENTIVE AND CARE SERVICES
FISCAL YEAR 2006-2007
LOS ANGELES GAY AND LESBIAN CENTER**

<u>Contract/Program Expenditures</u>	<u>Unsupported</u>	<u>Unallowable</u>	<u>Total</u>
Medical Outpatient (H209013)			
Copier Costs	\$ 917		
Facility Space/Security	59,969		
Outside Services		\$ 1,784	
Postage	4,078		
Printing	10,326		
Salaries	961		
Telephone/Telecom	6,180		
Subtotal	82,431	1,784	84,215
Mental Health (H209013)			
Outside Services		7,550	7,550
Health Education Risk Reduction (H700893)			
Event	600		
Participant Incentives	900		
			1,500
Health Education Risk Reduction (H700893)			
Participant Incentives	1,425		1,425
Health Education Risk Reduction (HERR) (H700893)			
Advertising	3,254		3,254
Subtotal HERR contracts	\$6,179		\$6,179
Total	\$88,610	\$9,334	\$97,944



L.A. Gay & Lesbian Center

June 22, 2009

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1625 N. Schrader Boulevard
Los Angeles, CA 90028
Tel: 323-993-7400
Fax: 323-308-4480
TDD: 323-993-7698

Health & Mental Health Services
Jeffrey Goodman Special Care Clinic
Mental Health Services
Sexual Health Program
Women's Health Program
1625 N. Schrader Boulevard
Los Angeles, CA 90028
Tel: 323-993-7500
Fax: 323-308-4400
TDD: 323-993-7698

**The Village at
Ed Gould Plaza**
1125 N. McCadden Place
Los Angeles, CA 90038
Tel: 323-860-7302
Fax: 323-308-4484

Jeff Griffith Youth Center
7051 Santa Monica Boulevard
Los Angeles, CA 90038
Tel: 323-993-7501
Fax: 323-308-4479

The Spot
745 N. San Vicente Avenue
West Hollywood, CA 90069
Tel: 323-993-7440

**California AIDS
Clearinghouse**
1443 N. Martel Avenue
Los Angeles, CA 90046
Tel: 323-845-4180
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www.lagaycenter.org

Ms. Wendy Watanabe
Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, California 90012-2706

Dear Ms. Watanabe:

This letter is in response to your memo dated May 14, 2009, to the Los Angeles County Board of Supervisors related to the Los Angeles Gay and Lesbian Community Services Center (LAGLC) Contracts Review—A Department of Public Health HIV/AIDS Care and Prevention Services Provider.

ELIGIBILITY

- 1. Recommendation.** Staff obtain the appropriate documentation from participants to determine the participants' eligibility for program services.

Response. All staff has been instructed to obtain proof of residency, proof of income, proof of insurance or lack thereof, and proof of HIV status for all new clients during the initial intake session. Additionally, for all existing clients, the staff has been instructed to obtain proof of residency, proof of income, proof of insurance or lack thereof, on an annual basis. The staff has been provided with a list of acceptable documents that will meet the requirements of the contract, including utility bills, voter registration cards, California car registration cards, bank statements, pay stubs, forms W-2, forms 1099, tax returns, California driver's license or ID, copy of insurance cards, or for the uninsured and unemployed, a letter of support from the appropriate party.

- 2. Recommendation.** Staff adequately document services provided to participants in the case files.

Response. The staff has been instructed on the need, and high level of importance, that all services rendered to a client need to be documented in the case file. In the event that a client has not received

services within the 12 month contract term, then the client will be inactivated and the file will be archived.

- 3. Recommendation.** Client files document that participants are screened for Medi-Cal, private medical insurance and other public sector funding, as appropriate.

Response. The staff has been instructed to screen for third-party payers at the time of intake and annually during the re-screening process. Staff will verify client Medi-Cal eligibility by using the Medi-Cal website. Enrollment workers will print an eligibility verification document which identifies the clients Medi-Cal status. This print out will be attached to the screening forms and filed in the client case file.

EXPENDITURES

- 4. Recommendation.** Repay DPH \$15,513 or provide documentation to support the expenditures.
- 5. Recommendation.** Maintain supporting documentation to support program expenditures.
- 6. Recommendation.** Ensure that only those costs that are allowable, necessary, proper and reasonable in carrying out services are charged to the Program.

Response. This finding consists of \$6,179 in unsupported expenditures, and \$9,334 is related to medical and psychiatry services provided for non-OAPP clients.

Of the \$6,179, \$3,254 was related to advertising, \$2,325 was related to participant incentives and \$600 was related to an event. Unfortunately, due to turnover in our accounts payable department, we could not find the proper support for the expenditures. LAGLC management believes the expenditures were reasonable, allowable and made in good faith in support of the appropriate OAPP programs scopes of work.

The Finance Department has been restructured since then. LAGLC hired Mike Holtzman as the Chief Financial Officer in October 2007. In addition, LAGLC hired Holly Swenson, first, as Manager of Financial Planning and Analysis and then promoted her to Controller around eight months ago. Both Holly and Mike are Certified Public Accountants. In addition, Lana Young, the Accounts Payable Accountant has been with LAGLC for over two years. Since the audit, additional internal controls have been implemented to ensure LAGLC has the appropriately supported invoices for all charges.

LAGLC requests that it not be required to repay the \$6,179 since it was spent in good faith to support program objectives and since additional internal controls have since been implemented.

OAPP was inadvertently charged \$9,334 for medical and psychiatry services provided for non-OAPP clients. LAGLC implemented additional internal control procedures in October 2008 to address this issue. At that time, LAGLC developed an Appointment Detail Report (ADR), which provides information to LAGLC management in order to properly identify the current insurance status of HIV/AIDS clients to ensure invoicing is made to the appropriate payer.

Given that non-OAPP clients were inadvertently charged to OAPP, LAGLC is in agreement that these funds should be repaid to DPH.

PAYROLL AND PERSONNEL

- 7. Recommendation.** Repay DPH \$961 or provide documentation to support the expenditures.
- 8. Recommendation.** Ensure payroll billings are based on actual costs incurred and actual hours worked on OAPP-related activities.
- 9. Recommendation.** Ensure variance time used is appropriately recorded and reduced from employees' benefit balances.

Response. The audit finding related to \$961 in unsupported payroll expenses was related to the January 2007 payroll for Dr. Michael Hall. Initially, his salary was capped due to the original budget that was approved. Upon receiving approval of a budget modification, his salary was "trued up" to the wrong amount, which was \$961 in excess of his actual payroll expenses.

Since that time, LAGLC has restructured the Finance Department as discussed above under Expenditures. LAGLC has implemented additional internal controls, which now include reconciling all payroll amounts included in the Excel worksheets used to prepare the monthly invoices to the general ledger, both month-to-date and year-to-date. This procedure should detect any amounts incorrectly entered onto the invoice worksheet.

LAGLC currently uses ADP to manage payroll. ADP properly records the hours used for vacation and sick leave and reduces the employees' benefit balances. That will ensure the accuracy of the variance time.

LAGLC is in agreement that \$961 should be repaid to DPH as a result of the inadvertent error.

COST ALLOCATION PLAN

- 10. Recommendation.** LAGLC management repay DPH \$81,490 in over billings.

Response. In the audit, the Cost Allocation Plan developed by LAGLC was determined to be appropriate. However, LAGLC's allocated shared costs were not always properly distributed to the benefiting programs. As a result, OAPP was overcharged for facility repairs/maintenance and security (\$59,969), printing (\$10,326), telephone (\$6,200), postage (\$4,078) and copier costs (\$917).

For allocated costs, including facility repairs/maintenance and security, LAGLC has historically performed the allocation of functional expenses down to the grant level on an annual basis at the end of each fiscal year due to the complexity and the resources required to perform the allocation. As a result, LAGLC invoiced the approved budgeted amount of allocated costs. Historically, the allocated amounts were usually in excess of the billed contract amounts, so there was not a problem. Given the problems encountered with the current audit, LAGLC management has decided not to allocate printing, telephone, postage and copier costs anymore as individual line items. Rather, these costs will be included in indirect costs given the difficulty in estimating the allocated costs at the time contracts are negotiated.

As a result of the audit, in reviewing the Cost Report that was submitted for the 2007 review period, LAGLC management noted that the amount included for Total Expenditures (Actual + Encumbered) for Total Indirect Costs was not calculated properly. The revised amount is \$753,362 and was recalculated in accordance with our Cost Allocation Plan. LAGLC received reimbursement from OAPP for \$207,505.

If we had had the proper foresight at the time the budget was negotiated, we would have budgeted \$251,242 for indirect costs (15% of total personnel expenses) and picked up an incremental \$43,738 over the \$207,505 that we received.

Given the dramatic difference between what was incurred by LAGLC and what was reimbursed by OAPP, and taking into account that an additional \$43,738 would have been reimbursed if the budget had been drafted properly, LAGLC requests that the total amount of \$21,521 over billed on line items including printing, telephone, postage and copier costs be forgiven.

As to facility repairs/maintenance and security, LAGLC management is in agreement that \$59,969 was over billed for that line item. However, based on the dramatic difference between what was incurred and reimbursed for Total Indirect Costs, as explained above, LAGLC requests that the amount over billed be forgiven.

In addition, LAGLC management is asking forgiveness of the over billings due to the current economic environment and the difficulties that LAGLC management is having in supplementing OAPP funds with

privately-raised funds to provide services to individuals with HIV/AIDS. Having to refund \$81,490 in the current environment would take badly needed funds away from HIV/AIDS services at the same time that LAGLC has experienced an increase in demand for those services.

LAGLC management has implemented additional internal controls to ensure that DPH will not be overbilled in the future on allocated costs.

COST REPORTS

- 11. Recommendation.** Ensure the expenditures charged to OAPP are recorded in the Agency's accounting records.
- 12. Recommendation.** Ensure the cost reports are supported by the Agency's financial records.

Response. Other than allocated costs, expenditures charged to OAPP are recorded in the Agency's accounting records. For allocated costs, LAGLC historically performed the allocation of functional expenses down to the grant level on an annual basis at the end of each fiscal year due to the complexity and the resources required to perform the allocation. As a result, LAGLC historically invoiced the approved budgeted amount of allocated costs. After consultation with OAPP, LAGLC management has implemented additional internal controls to estimate the amount of allocated costs based on the prior year's audited financial statements and make any necessary adjustments after the final amounts are calculated after each fiscal year end.

LAGLC management is appreciative of the level of professionalism exhibited by the Department of Auditor-Controller, particularly Maria McGloin.

If you have any questions, please call me at 323-993-7615. We look forward to hearing your response.

Very truly yours,



Michael J. Hoftzman
Chief Financial Officer